

WalMart and Outsourcing
Testimony of Robert Baugh
Executive Director
AFL-CIO Industrial Union Council
Cleveland, Ohio
September 19, 2005

Good morning. My name is Robert Baugh. I am the Executive Director of the AFL-CIO Industrial Union Council. The unions of the IUC represent the millions of manufacturing workers across the nation that work in everything from basic metal and assembly to electronics, chemicals and food processing.

Our unions and their members have grave concerns about the future of manufacturing and the economy. There is something fundamentally flawed with the business practices of our largest corporations.

Over the past decade a dominant business model, supported by government trade and tax policy, has emerged in the American economy that promotes the outsourcing/offshoring of American manufacturing. The loss of our manufacturing capacity – the intellectual and technical capability to make things – is a profound threat to the nation's economy and our national security.

WalMart, the largest corporation in America, has been a leading practitioner of this flawed business model. The report we have submitted this morning, *WalMart Imports From China, Exports Ohio Jobs*, documents the cost of these practices to the state of Ohio and profiles the experience of four Ohio manufacturers: Huffy, Rubbermaid, Mr. Coffee and Thomson Industries (RCA televisions). Carla Henthorn, a former Rubbermaid worker and USW member is here to share the story of what happened to this company.

The Cost of a Flawed Business Model

These firms are representative of the tidal wave a manufacturing job losses that have occurred in Ohio and states across the country.

- Over the past four years the U.S. lost more than 2.9 million manufacturing jobs
- Between January 2001 and July 2004 Ohio lost more than 170, 000 manufacturing jobs -- a loss of one in six or nearly 17% of all the manufacturing jobs in the state (chart 1 Ohio report)
- Cleveland accounted for lost more than 40,000 manufacturing jobs

There is a direct relationship between the loss of 2.9 million manufacturing jobs (chart 1) and the fact that today there are five million more Americans without health insurance

than in 2001. State health care systems and employers with good coverage are paying the cost for those who have lost their jobs or for large employers like WalMart that provide only limited benefits and coverage.

The trade picture (chart 2) tells the other side of the employment story. It is a disaster. The 2004 \$666 billion goods trade deficit is headed toward \$700 billion – more than 6 per cent of the GDP. Each deficit dollar represents lost jobs and opportunities for our economy and Ohio communities. It's outrageous, unsustainable and dangerous.

Over the past five years our so-called free trade policy with the Chinese government has resulted in the largest bilateral trade deficit between any two countries in the history of the world (chart3). The Economic Policy Institute estimates it has cost us 410,000 manufacturing jobs in the past two years. The 2004 \$162 billion trade deficit with China is on target to exceed \$200 billion in 2005. Today, if empty cargo containers were a product they would be our largest export to China.

This comes as no surprise. China's entry into world trade has been built upon an export strategy supported by the systematic violation of workers' rights, weak environmental standards, currency manipulation and illegal subsidies. The U.S government chooses to ignore these violations of trade law while WalMart and large manufacturers exploit them.

Today, this low wages and no benefit environment is both a magnet for outsourcing and a sledgehammer used to pound vendors and the American working class into line. WalMart is a firm that actively engages in both all in the name of competition and consumers.

The WalMart Model

WalMart used to advertise that their products create American jobs. Today over 60 per cent of their products are made in China. In 2004 WalMart imported \$18 billion in goods from China, more than 12% of that trade deficit (chart 2 Ohio report). They require their vendors to manufacture overseas so the smiley face can bring us lower prices. Huffy, Rubbermaid, Mr. Coffee and Thomson and many more Ohio firms have felt the squeeze.

WalMart also squeezes their workers. They pay lower wages and offer less work hours than comparable competitors -- 28 hours is considered full time work. Fewer workers are insured at WalMart, 41 percent vs 66 percent in large firms, and they must pay for more of their premiums than at other large firms. The company spends less than half of what most firms do for health insurance even in the retail industry.

They also want to make sure they keep it that by aggressively opposing any union organizing effort domestically and internationally. Under our weak and ineffective labor laws WalMart workers are easily intimidated and fired. In Canada they closed a store organized by the UFCW. In China, Li Jianming, the head of the government sponsored All-China Federation of Trade Unions admitted that workers "are not willing to risk their employment at Wal-Mart by asking for a union. Basically they are afraid of losing their jobs."

WalMart will oppose any effort to give workers the right to organize and bargain collectively here and abroad. They will oppose the Employee Free Choice Act currently before the U.S. Congress. They will oppose and subvert any attempts to enforce our existing trade laws regarding workers' rights (section 301 of the U.S. Trade Act) or to impose enforceable labor standards in trade agreements.

The WalMart model is a low road one. Dr. Gary Gereffi a Professor of Sociology and Director of the Markets and Management Studies Program at Duke University described the model on PBS's Frontline last fall:

Wal-Mart is one of the major companies that's been promoting a global race to the bottom. It's like we're on a bus with an accelerator pedal with no brakes. We're going in this global sourcing, global efficiency direction, and it's pushing everybody's costs down to the floor, but suppliers are complaining about this model because they can't make profits. They can't pass higher costs on to Wal-Mart; because Wal-Mart is so big, it holds the fate of any one of its suppliers in its hand ...

Wal-Mart is bad for America because it's hurting jobs in the United States. It's hurting jobs in two ways. Wal-Mart is putting a lot of pressure on the jobs of its suppliers, who are finding that they can't meet Wal-Mart prices, so Wal-Mart goes offshore. Those suppliers go out of business.

Wal-Mart is also having a negative impact on employment in the retail sector. Wal-Mart is the largest employer in the United States after the federal government. But Wal-Mart is also very well known for being a non-union company and pushing non-union conditions on its workforce. ... It pays its workers at a minimum pay scale with very few fringe benefits. Because Wal-Mart's the largest private employer in the United States, whatever Wal-Mart does in terms of the labor market, all other businesses have to follow. So Wal-Mart is really determining the direction in which the U.S. labor market is moving."

That is the Ohio story ... Huffy in Celina, Rubbermaid in Wooster, Mr. Coffee in Glenwillow, Thomson in Circleville, World Kitchen in Massillon, Ohio Arts and more are all part of the list of WalMart casualties. It is a story that has been repeated across the country.

It seems that the WalMarts of the world now dictate our national interest. Their outsourcing is a virulent disease that is crippling manufacturing and spreading to other industries. The entire economy is paying the price but no one seems to be asking the big questions.

Should the "free market" ideology trump common sense?
Is the exploitation of workers from one side of the globe to the other a morally and economically justified business model?

Does this business model work for Ohio and the nation?

I can tell our answer ... No!

Do American working families deserve better ... Absolutely!

A New Model

Our union members and the communities they live in know that manufacturing means good jobs and healthy communities. They know that our nation's economic security and national security are dependent upon a strong manufacturing base.

There is a simple truth that the working families of this nation understand ... if we don't make things we have nothing to trade and if we have nothing to trade can never solve the trade deficit.

They also understand that the loss of skilled workers, R&D, engineering, design, etc. means the next best idea, the next innovation, the next generation of products, the next investment will be made in somewhere else, not here.

They can see that the seed corn of our future is being planted in other nations.

The AFL-CIO Industrial Union Council recommend the following steps be taken revitalize manufacturing, restore the nation's trade balance and ensuring economic and financial stability:

- Stronger labor laws domestically and internationally to prevent employer suppression of workers' freedom to form unions and bargain collectively. Passage of the Employee Free Choice Act by Congress is a priority. I would also like to thank you Congressman Brown and Jones for cosponsoring this bill.
- Revised tax laws that eliminate incentives for corporations to move production overseas and punish those that do.
- Action at the state and the federal level to require that large employers are paying for their fair share of health benefits.
- Fair trade policies that reduce the U.S. trade deficit, protect U.S. trade laws and require inclusion of enforceable workers' rights and environmental standards in trade agreements.
- Immediate intervention to address the unfair trade practices of China and other nations, including legislation to ensure China meets its international obligations regarding fair currency (HR1498), market access, and government subsidies.

In summary, this nation is suffering from the outsourcing business model that the WalMarts of the world have imposed. It is flawed, it is wrong and is dangerous for our economic and national security. Unless something is done the casualty list of Ohio manufacturers and workers who have lost their jobs will continue to grow. It is time to act.

The IUC would like to thank the distinguished members of the U.S. Congress and Ohio legislature for holding this hearing. In addition, we would like to encourage that other members organize similar hearings in their districts to make plain the damage done and the alternatives.

Chart 1

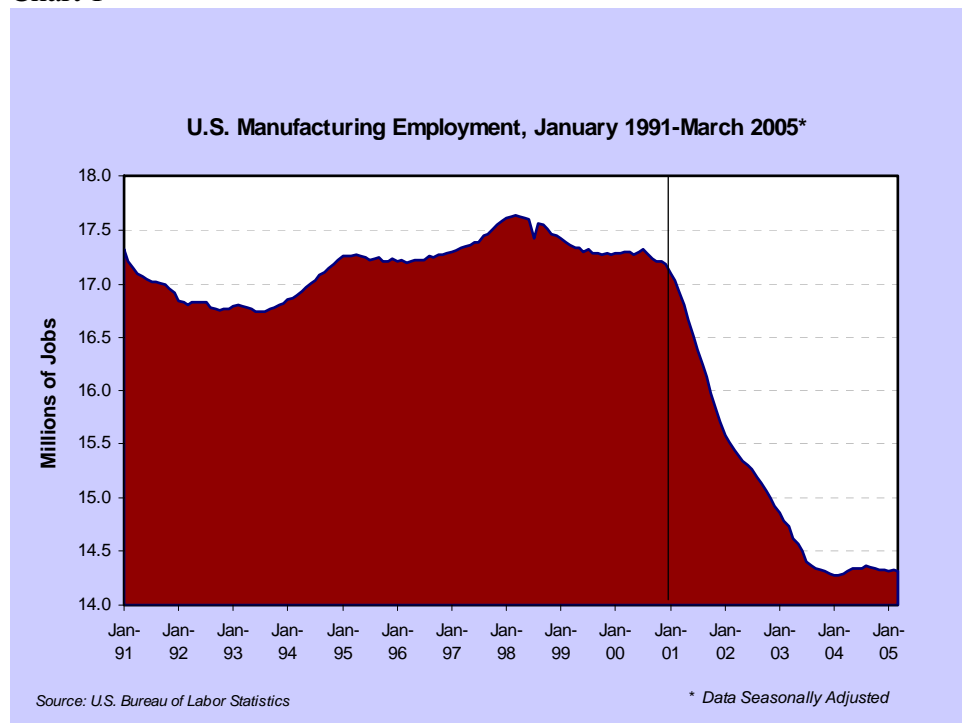


Chart2

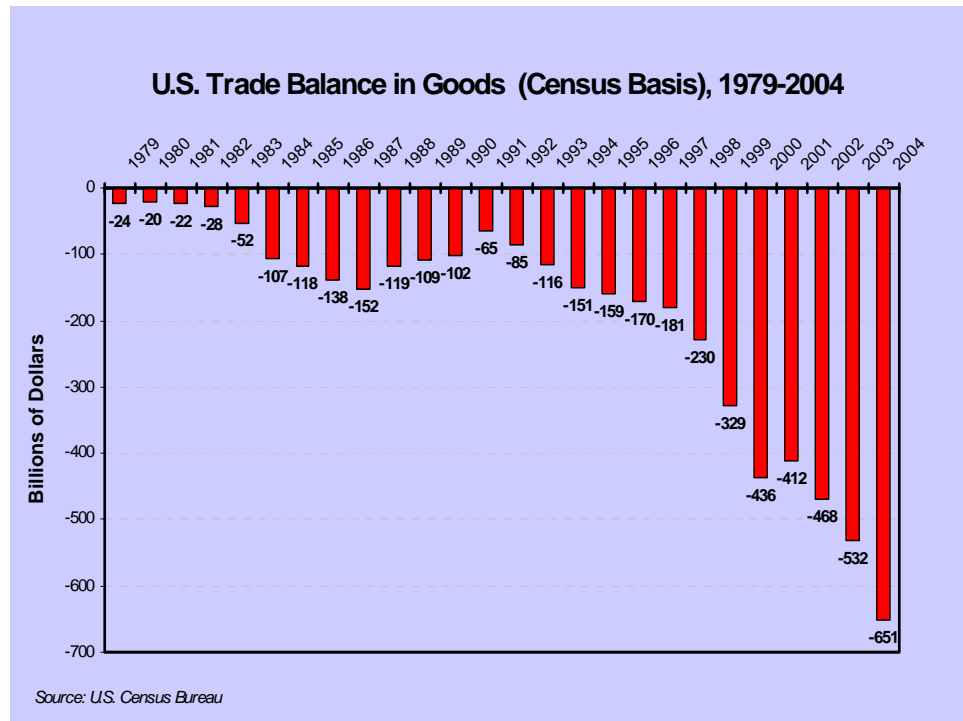


Chart 3

